



CERTIFIED MAIL -
RETURN RECEIPT REQUESTED
DAVID WISSERT
LOWENSTEIN SANDLER KOHL
FISHER AND BOYLAN
65 LIVINGSTON AVE
ROSELAND NJ 07068-1791

January 19, 1998

Marmon Holdings [Group R Company]
Coeur d'Alene Basin, Idaho, Potential Claim
Wausau File No.: H74-102666
Wausau Policies: 02210041274[7/1/70 - 7/31/71]
02220041274[7/1/71 - 7/31/72]
02230041274[7/1/72 - 5/31/73]
573300300593[10/1/82 - 10/1/83]
573300300594[10/1/82 - 10/1/83]
573400300593[10/1/83 - 10/1/84]
573400300594[10/1/83 - 10/1/84]
573500100917[10/1/84 - 10/1/85]
573402100917[10/1/84 - 10/1/85]
573600100917[10/1/85 - 10/1/86]

This will acknowledge receipt of your letter dated December 9, 1997, indicating your initial tender was precautionary notice based upon your understanding that this situation will in the future rise to the level of a claim. This will serve as formal acknowledgement of your tender and formal reservation of all Wausau rights regarding same.

As you indicate, Wausau issued general liability coverage to Marmon Group for the period effective July 1, 1970 through May 31, 1973, and excess liability coverage to the Marmon Group for the period effective October 1, 1982 through October 1, 1986. All policies are subject to the terms, conditions, limits and exclusions included respectfully therein. Additionally, the excess policies are subject to the policies to which they follow form.

The insuring agreements contained in the primary policies provide for the right and duty to defend a "suit." As the matter tendered to us is not in the nature of an adjudicatory proceeding, it does not constitute a "suit" as that term is used in the policies. However, if a lawsuit is filed and Marmon Holdings is served, please forward a copy to us so that we may review and reassess our defense position.

The general liability policies issued by Wausau Insurance Companies contain both coverage and exclusion provisions which individually and collectively demonstrate that

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NATIONWIDE INSURANCE ENTERPRISE



LS 003686

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January 19, 1998

coverage was not intended for such events. Currently, it is difficult to determine which policy or policies may potentially apply to this claim. Our concern is whether this claim constitutes a claim for "bodily injury" and/or "property damage" and whether there is an "occurrence" as these terms are defined in any of the various policies. We also have a concern as to whether this claim constitutes a claim for "damages" as that term is used in any of the insuring agreements of the various policies.

Policies written from 1970 to 1985 contain a specific pollution exclusion which reads:

"This insurance does not apply to 'bodily injury' or 'property damage' arising out of the discharge, dispersal, release or escape of smoke, vapors, soot, fumes, acids, alkalis, toxic chemicals, liquids or gases, waste materials or other irritants, contaminants or pollutants into or upon land, the atmosphere, or any water course or body of water; but this exclusion does not apply if such discharge, dispersal, release or escape is sudden and accidental."

Policies with an inception date in 1985, including Policy No. 5736-00-100917, contain a total pollution exclusion which bars coverage even if the discharge, dispersal release or escape was sudden and accidental.

Further, the policy does not provide coverage for property damage to property owned or occupied by or rented to the insured, property used by the insured, property in the care, custody or control of the insured or as to which the insured is for any purpose exercising physical control or to premises alienated and/or abandoned by the named insured arising out of such premises or any part thereof. Please refer to your policies for the precise wording of these exclusions.

We refer you to the following general liability policy conditions:

In the event of an occurrence, written notice containing particulars sufficient to identify the insured and also reasonably obtainable information with respect to the time, place, and circumstances thereof, and the names and addresses of the insured and of available witnesses, shall be given by or for the insured to the Company or any of its authorized agents as soon as practicable.

If a claim is made or suit is brought against the insured, the insured shall immediately forward to the Company every demand, notice, summons, or other process received by him or his representative.

The insured shall cooperate with the Company and, upon the Company's request, assist in making settlements, in the conduct of suits and in enforcing any right of contribution or indemnity against any person or organization who may be liable to the insured because of injury or damage with respect to which insurance is afforded under this policy;

LS 003687

January 19, 1998

and the insured shall attend hearings and trials and assist in securing and giving evidence and obtaining the attendance of witnesses. The insured shall not, except at his own cost, voluntarily make any payment, assume any obligation, or incur any expense other than for first aid to others at the time of accident.

No action shall lie against the Company, unless as a condition precedent thereto, there shall have been full compliance with all of the terms of this policy, nor until the amount of the insured's obligation to pay shall have been finally determined either by judgment against the insured after actual trial or by written agreement of the insured, the claimant, and the Company.

As the readings may vary from policy to policy we refer you to your policies for an exact reading.

With regard to the excess policies, please note that coverage, if applicable, will not be provided until all applicable limits of all underlying policies have been exhausted. Please forward copies of all policies underlying the Wausau excess policies.

Based on the information submitted to date it would appear policies issued before 1976 could not possibly be impacted as Cerro Corp. was not merged into Marmon Group until that time, therefore, there could not have been an "occurrence" during the Wausau policy periods. Further, issues of exhaustion arise regarding the primary policies. We are currently attempting to determine what monies, if any, remain in the primary policy limits.

Other policy terms, conditions and exclusions may well be applicable as information is acquired. Neither your rights and obligations nor Wausau Insurance Companies are intended to be limited to the application of the cited provisions.

Wausau Insurance Companies reserves each and every right that it has under its policies of insurance issued to Marmon Holdings and specifically reserves its rights to deny coverage and not make any payment for any damages that do not come within the coverages of the policies.

Wausau Insurance Companies further reserves all rights under the Personal Injury section of the policy. The allegations and facts of the claim do not appear to come within those coverages.

To assist in the evaluation of your claim and to inform us of your handling of it to date, we request the following information. It can either be sent to us or we can make arrangements for a personal visit by one of our claim representatives. If for some reason the information is not available to you, please advise us as to where it can be found.

LS 003688

January 19, 1998

1. Please provide a brief history of the facility and its dates of operation including a description of the product manufactured, materials processed or service provided, and information on previous owners.
2. Provide a description of past and present waste disposal operations or the process operations suspected of causing the alleged pollution. This should include:
 - a. Inventory of chemicals used.
 - b. Volumes and methods of waste disposed both on-site and off-site.
 - c. The size and type of chemical and waste storage containers or impoundments.
3. Provide a history of any leaks, spills and other releases at the site or facility and the clean-up operations or remediations conducted in response to those incidents.
4. Please give details including dates of all sudden and accidental discharges, dispersals, releases or escapes of pollutants from the site.
5. State in detail how the contamination took place.
6. Provide information on potential other sources of contamination both on-site and off-site.
7. Provide any summary reports or results of any comprehensive environmental studies conducted to date which outline the extent and degree of the alleged contamination of soil, air, or surface and ground water.
8. Please provide a description of use of the surrounding land both contiguous to and within a two mile radius of the facility; e.g., residential, industrial, farmland, wooded, etc.
9. Identify all primary and umbrella carriers and their policy periods from the time your company first operated at this site to the present.

Pending the acceptance or rejection of your claim, please contact us if you have any questions and keep us advised of any significant legal or economic developments relating to the claims being made against you. If there is any

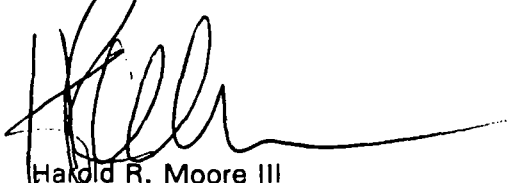
LS 003689

January 19, 1998

information which you believe would bear upon the question of coverage,
please provide that to us as soon as possible.

Should you have any questions concerning the above, please do not hesitate
to contact the undersigned at (630) 719-0753.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Moore III", with a long horizontal flourish extending to the right.

Harold R. Moore III
Environmental Claim Supervisor
NSC/blr 15

LS 003690